



Gobi Regional Economic Growth Initiative

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Year One - Second Quarter Report April 8 - July 7, 2004 Cooperative Agreement # 438-A-00-04-00002-00

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By

MERCY CORPS

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GOBI INITIATIVE PHASE II – YEAR ONE - SECOND QUARTER REPORT

The Cooperative Agreement for Gobi Initiative Phase II was signed on December 31, 2003 and became effective on January 8, 2004. The first quarterly report, covering the period of January 8 to April 7, 2004, was submitted to USAID on April 23, 2004.

Gobi II has the following goal, objectives and overall focus:

Program Goal:

- To develop and strengthen rural business in the Gobi region

Program Objectives:

- An increase in the number of new and strengthened productive Gobi businesses
- An increase in availability, access to and use of business information by Gobi entrepreneurs

Program Focus:

- Supporting herder groups that are expanding and/or diversifying their business activities
- Supporting the development of herder cooperatives
- Supporting businesses that add value to herder products and link those products to markets
- Promoting rural business linkages to the financial services sector
- Improving the quality and accessibility of local business development and support services

Program Highlights during this reporting period of April 8 to July 7, 2004 include:

- Convening of a Mid-Year Review and Planning Meeting from June 30 to July 3 involving all Gobi II program staff. The meeting was held to review progress to date against the Annual Work Plan and to discuss program activities to be implemented during the remainder of Year One. Major issues noted and discussed included (a) challenges encountered with finalizing business plans and technical assistance interventions for non-herder businesses, (b) plans for the upcoming September 2004 market events in each aimag, (c) the need for more business planning training for GI aimag staff, and (d) the status of ongoing skills-building work with training and technical assistance providers.
- Seventy-two (72) herder groups/cooperatives are all actively implementing their approved business plans; GI has provided fifty-five (55) technical assistance interventions to the herder clients to date. The most common technical assistance topics were cooperative development, vegetable and fodder crop production, dairy milk product processing, and animal breeding and production.
- Formation of a further eleven (11) cooperatives from existing herder groups, taking the total of registered cooperatives and businesses to sixty (60) out of a total of seventy-two (72) or 83%.
- Nine (9) non-herder businesses were provided with training and technical assistance. The businesses included food and beverage manufacturers, a dairy producer, wool processing facility, construction firm and furniture manufacturer. The cost-share for technical assistance was also revised. Non-herder business clients now pay from 20% to 50% of the consultant's fee, depending on (a) annual sales, (b) total assets, (c) number of years in operation, (d) previous GI assistance, and (e) location (aimag or soum). The client's share of the consulting fee is paid directly to the consultant by the business.
- Eight (8) companies in Dundgovi, Umnugovi and Uvurhangai have concluded twelve (12) contracts to date worth MNT 132,444,000 (US\$ 112,240) to provide gers, ger furniture, beds and office furniture to Ivanhoe Mines. Mercy Corps and Ivanhoe are currently finalizing a coordination strategy which outlines the goals and objectives of both organizations with respect to development work in the Gobi. Ivanhoe staff made a presentation on future plans for the mine and its expected procurement needs at the Mid-Year meeting. The Silden Tenger cooperative in Bayanhongor also contracted with the Jargalan Mining company to provide bread and pastry valued at MNT 1.8 million (US\$ 1,525) per month to the mine.

- Thirty-seven (37) loans totaling MNT 92,700,000 (US\$ 78,500) have been issued since mid-April to herder groups/cooperatives in all six (6) aimags, in support of activities outlined in their approved Business Plans. Many of the loans were used for the purchase of machinery or other equipment required for new or expanded production. The loans were partially guaranteed by Mercy Corps (MNT 77,545,000).
- The Gobi Forage component of the program started with the visit of a five member scientific team from Texas A&M University to Uvurhangai and Bayanhongor aimags in June. The purpose of the trip was to finalize selection of the sites that will be used to monitor Gobi pasture conditions and to test sample the vegetation within those sites. During this initial visit, a total of 39 such sites were established out of the 120 sites that will be operational by the end of this year.
- RBN added a new magazine segment "Technology Corner", providing information on availability and use of machinery and equipment of interest to agricultural businesses. RBN radio was expanded from three days per week to five and more commodity prices were added to "Market Watch", especially those related to seasonal items such as seeds and agricultural machinery.
- The GI program was visited by William Reynolds, Regional Contracting Officer, and John Power, Regional Legal Advisor, both from USAID/Manila.

Detailed information concerning the two objectives and twelve activities is as follows:

OBJECTIVE ONE: INCREASE IN NUMBER OF NEW AND STRENGTHENED PRODUCTIVE RURAL BUSINESSES

Activity One: Business Plan Development

Business plan development for the initial group of GI program clients was completed during the first quarter of the year with a total of seventy-two (72) business plans finalized in the six target aimags. Having completed the first round of business planning, the GI program team has now begun identifying new groups and cooperatives to join the program. During May and June, a total of six (6) herder groups/cooperatives from Dundgovi were selected for inclusion in the program. Business Plans for the six (6) new program clients will be finalized during July with implementation beginning immediately.

Table 1: Examples of business plan implementation activities during the first two quarters

<p>1) Hiadiin Govi cooperative, Burd soum, Uvurkhangai Aimag. Activity: Vegetable Production</p> <p>The group has prepared 2 hectares of land for cultivation and planted vegetables (potatoes) and fodder crops (alfalfa and oats). They have received technical training from a local consultant, Mr. Chulunbaatar, on vegetable and crop cultivation technology, soil protection and plant growth. The cooperative applied for and received a loan of MNT 2.0 million from XacBank, and used the loan proceeds to buy a small tractor with crop cultivation accessories and a plough. The cooperative has also been implementing a project in cooperation with World Wildlife Fund to grow sea buckthorns and black currants. The WWF project has funded the purchase of 600 meters of barbed wire, 550 fencing posts and 300 seedlings. The saplings and seedlings have been planted and the cooperative has constructed wind protection fences around the field edge to reduce the movement of sand.</p>
<p>2) Ulgii Mandal cooperative, Mandalgobi soum, Umnugovi Aimag. Activity: Animal Protein/Mineral Block Production.</p> <p>The cooperative first secured use of a building for the production of animal protein/mineral blocks. Cooperative members then collected the raw material needed for the production of the protein/mineral supplements and assembled the pressing equipment (made from wood and bricks) needed for production of the blocks. Technical training was provided by Mr. N. Togtohbayar from the University of Agriculture. The training covered the types of raw material and technology needed to produce two basic types of protein/mineral fodder blocks - a salt block that contains salt and animal dung ashes, and a protein/mineral block that contains bran, salt, minerals, urea and flour. The cooperative has produced a total of 1,000 salt blocks which have been sold in Uvurkhangai aimag. A further 500 protein/mineral blocks have been produced and will be sold during the summer months to herders in the aimag. The cooperative plans to produce and sell 1,000 units of each block annually with an estimated profit of MNT 350 - 500 per block.</p>

3) Narlag Uguumur cooperative, Tugrug soum, Gobi-Altai Aimag. Activity: Camel Milk Production
Tuhum-Tungalag camel breeders are unique in that they breed 'Hos zogdort' camels. The primary business activity of the Narlag Uguumur cooperative is camel breeding and they have developed a business plan covering the production and sale of camel milk. One well has been rehabilitated and now provides access to water for 6,500 livestock owned by the 12 families of the cooperative. The cooperative fenced 18 hectares of land to reserve the natural pasture for winter fodder. The first sale of camel airag (fermented camel milk) was held in the aimag capital in June and the cooperative sold 300 liters over a two day period. The camel airag was sold at a price of MNT 500 per liter, generating MNT 150,000 in gross revenue. 'Huurtsug' day was organized by the cooperative members to promote the product and its health benefits. A total of 150 liters of 'Huurtsug' (fermented camel milk mixed with fresh camel milk) was distributed for free to 1,000 children on the occasion of Mother's Day. The cooperative received technical training from an Ulaanbaatar-based consultant covering the processing, pasteurization, preservation, and packaging of camel milk.

4) Gal Michid cooperative, Luus soum, Dundgobi Aimag. Activity: Felt production
With a loan of MNT 1.6 million from XacBank, the cooperative purchased some old felt processing equipment in Bulgan aimag. The equipment was subsequently repaired in Ulaanbaatar and then shipped to Dundgovi. GI program officers assisted the group in their negotiations with the governor who authorized the temporary use of the steam heating plant for the installation of the machinery. The cooperative members received training on wool scouring technology and felt production. To ensure an adequate supply of wool, the members not only sheared their own sheep but also made agreements with other herders to purchase their wool. A consultant was hired to assist the cooperative with more detailed marketing research and developing a formal marketing plan for the cooperative.

Vegetable and fodder production is an important business diversification strategy for a number of this year's Gobi II clients. Twenty-two (22) herder groups and cooperatives are engaged in planting vegetables and fodder crops. During the spring months, a total of 93 hectares were planted with potatoes (31 ha); vegetables such as carrots, turnips, cabbages, tomatoes and onions (13 ha); and fodder crops such as maize, alfalfa and perennial grasses (49 ha). A further 21 hectares of land has been fenced for natural hay fields.

Activity Two: Cooperative Formation

Of the initial seventy-two (72) groups working with Gobi Initiative, sixty (60) are now legally registered business entities, either cooperatives, limited liability companies or partnerships, and the remaining twelve (12) are herder groups. During this reporting period, a total of eleven (11) herder groups became formal cooperatives, completing their registration with the government authorities (4 groups in BH, 3 groups in GA, 3 groups in UG and 1 group in UH). This was accomplished through assistance provided by GI aimag staff as well as thirteen (13) organized training events covering essential cooperative-related topics, including cooperative management, structure and leadership, operations and marketing, record keeping and reporting, and taxation and regulatory compliance.

Table 2: Numbers of Herder Groups and Cooperatives/Registered Businesses

	Bayanhongor	Dundgovi	Govi-Altai	Govisumber	Umnugovi	Uvurhangai	July 2004	April 2004	Jan 2004
Total	12	10	14	5	13	18	72	72	76
Co-ops & Registered Businesses	11	6	10	4	12	17	60	50	38
Herder Groups	1	4	4	1	1	1	12	22	38

To assist the new cooperatives, the GI program officers completed the development of a cooperative financial recordkeeping book. The book has been distributed to all GI herder clients and program officers have been providing training on how to maintain this book and prepare the necessary reports. The book will assist the cooperatives to comply with financial recordkeeping regulations and will provide a basis for the preparation of tax returns.

Activity Three: Agriculture Training and Technical Assistance

During the first quarter, comprehensive master schedules of planned training activities and technical assistance interventions were developed for each aimag. During the second quarter, the program officers organized and implemented a total of fifty-five (55) training and technical assistance interventions for Gobi II herder clients. The main topics provided to the herder clients were: cooperative development, vegetable and fodder crop production, dairy milk product processing, and animal breeding and production. Specific subjects covered under these broad topics included:

- 1) Cooperative development: management, structure and leadership, operations and marketing, record keeping and reporting, and regulatory compliance
- 2) Vegetable and fodder crop production: soil cultivation, vegetable seed certification, selection of suitable forage crops, planting methods, crop protection, common plant diseases and pests, harvesting methods, storage and processing of vegetables and the production of silage
- 3) Dairy milk product processing: hygiene and sanitation standards related to production, storage and processing of raw milk and dairy products, yeast culture technology, proper use and maintenance of milk processing equipment (separators, pasteurizing machinery), animal/human disease transmission (tuberculosis and brucellosis), and packaging, labeling and storage of dairy products
- 4) Animal breeding and production: selection of breeding animals, herd/flock recordkeeping, specific breed characteristics, and artificial insemination technology

Each business plan identified three types of technical assistance or training that would be provided by GI. These assistance needs were categorized into four components: training, consultancy, facilitating access to equipment (identifying potential suppliers and providing technical advice related to the use of the equipment) and facilitating access to financial services (primarily loans). The table below summarizes the numbers of groups/cooperatives and the number of training and/or technical assistance interventions that each group has received to date.

Table 3: Summary of agricultural training and technical assistance provided to individual herder groups and cooperatives during the first two quarters of the year.

	BH	GS	GA	DG	UG	UH	Total
Total Number of groups/cooperatives	12	5	14	10	13	18	72
# Groups/cooperatives that have received 3 TA.	3		6	5	10	6	30
# Groups/cooperatives that have received 2 TA.	7	3	7	2	3	7	29
# Groups/cooperatives that have received 1 TA.	2	2	1	2		4	11
# Groups/cooperatives that have not received TA.				1		1	2

(TA = Technical Assistance)

During the quarter there have been four (4) requests from herders and non-herder businesses who are not primary clientele of the Gobi II program but who are eligible to receive assistance under the "refresher courses" component of Gobi II. As described in the Annual Work Plan, these courses are offered by the program provided that there is clear client demand for the training and provided that the participants are willing to cover the full costs of the course. The following four (4) courses were organized by the GI program officers and two Ulaanbaatar-based consultants were hired to provide the training. The consultants' fees were paid by the participants of each refresher course.

Table 4: "Refresher Courses" implemented during the second quarter

Aimag	Topic of Training	Number of participants	Consultant
BH	Business Planning - the major components of a business plan and how to prepare one; finding and securing commercial financing, including loan applications, loan disbursement requirements etc.	15	Mr. Jargalsaihkhan Business Economy School at AG University
BH	Financial Recordkeeping - setting up and maintaining a proper set of financial records	18	Ms. Enkhtuul MonGer Coop company

UG	Business-Start up - developing new business ideas, products and services; marketing and market research; competition; financial analysis; loan applications and loan disbursement requirements; formation of a business entity; business law; and developing and implementing a business plan	12	Ms. Enkhtuul MonGer Coop company
BH	Financial Recordkeeping - setting up and maintaining a proper set of financial records	14	Ms. Enkhtuul MonGer Coop company

Activity Four: Acquiring Critical Inputs

GI program staff have provided clients with assistance in acquiring critical inputs for their business activities. This assistance has included the collection and dissemination of information on equipment specifications and prices for agricultural machinery, water pumps, irrigation equipment, milk processing equipment and vegetable and fodder crops seeds. Staff have also provided assistance to clients to obtain specific items of equipment, such as the felt making machinery acquired by the Gal Michid cooperative. Seven (7) herder groups/cooperatives were assisted to obtain small tractors from the Ministry of Food and Agriculture at a negotiated cost of approximately MNT 1,800,000 (US\$ 1,525) each. They had been exhibited in March at the Agricultural Trade Fair at MNT 3,500,000 (US\$ 2,965) each, which all of the herders thought was far too expensive. Table 5 details the number of GI clients per aimag and the types of equipment that were purchased with technical assistance provided by the program officers.

Table 5: Number of GI herder groups/cooperatives per aimag and the type of equipment purchased

Aimags	Tractors	Irrigation equipment	Ploughs	Water pumps	Vegetable and fodder crop seeds	Milk processing equipment	Fencing material and fence posts
Uvurhangai	4	2	3		8		3
Bayanhongor	1	-	1	1	4	8	1
Umnugovi	2	2		1	13		8
Gobi-Sumber	3		1	1	5		5
Gobi-Altai	1					5	3
Dundgovi	1		2		2		2
Total	12	4	7	3	32	13	22

The loan guarantee component of the program has been successfully implemented. The Program Officers have been working with clients to complete loan applications and to prepare supporting documentation requested by the banks. Herder clients have been applying for loans since April and to date 37 loans totaling MNT 92,700,000 (US\$ 78,500) have been issued to herder groups/cooperatives in all six aimags. These loans were partially guaranteed by Mercy Corps in the amount of MNT 77,545,000. Loan information is contained in **Annex 1**.

Activity Five: Long-term Technical Assistance to Non-Herder Businesses

The Aimag Representative offices selected a total of nine (9) non-herder businesses to receive long term technical assistance during the course of the year (details on these businesses were provided in the first quarterly report). The first step in providing this assistance is the development of comprehensive business plans. The development of these plans has been slower than anticipated, the primary challenges being (a) difficulties in clarifying with the selected businesses exactly what their primary business objectives are, (b) obstacles in analyzing the true market opportunities for their businesses, and (c) competing program priorities at the aimag office level. During the quarter, two businesses, Choir Bakery (Govi-Sumber) and Buyan Undral (Govi-Altai) completed their business plans and both submitted loan applications to secure the necessary financing. Choir Bakery has submitted a loan application to Xaan Bank for MNT 6.0 million and Buyan Undral has approached the World Bank's Sustainable Livelihoods Project for "soft loan" financing of MNT 50 million. The other seven (7) non-herder businesses are currently finalizing their business plans with assistance being provided by Ulaanbaatar-based consultants and GI business program officers.

In addition to support for business plan development, GI has also provided the selected businesses with eleven (11) specific technical assistance interventions. The businesses have all contributed towards the cost of receiving the technical assistance (cost share). Table 6 details the businesses, the technical assistance that they have received, and the cost covered by each individual business.

Table 6: Long-Term technical assistance provided to Non-Herder Businesses

No	Aimag	Name of business	Area of Technical Assistance provided	Name of Consultant	Cost share (MNT)
1	BH	Sulden Tenger cooperative	Human resource management, recruitment, staff contracts, personnel policies, salary scales, social insurance and tax issues.	Mr. Bum-Erdene MMCG	35,000 (42% of consulting fee)
2	BH	Dorniin Gegee LLC	Human resource management, recruitment, staff contracts, personnel policies, salary scales, social insurance and tax issues	Mr. Bum-Erdene MMCG	35,000 (42%)
3	GA	Arvin Belt LLC	Marketing identification and research, product pricing, packaging and promotion	Mr. Batbold, Volcano Group	45,000 (40%)
4	UV	Suun Dalai LLC	Hotel management, customer relations and services, reservations and bookings. Restaurant services and menus.	Mr. Oktobayar Mongolian Culinary Assn	30,000 (31%)
5	UV	TU-BA-SE LLC	Hotel management, customer relations and services, reservations and bookings. Restaurant services and menus.	Mr. Oktobayar Mongolian Culinary Assn	10,000 (10% - special deal)
6	DG	TEBBE LLC	Accounting, financial management, recordkeeping and reporting, and banking	Mr. Bat-Erdene Private consultant	72,000 (50%)
7	DG	Goviin Tenger LLC	Accounting, financial management, recordkeeping and reporting, and banking	Mr. Bat-Erdene Private consultant	30,000 (21%)
8	UV	Molor Khuleg LLC	Marketing identification and research, product pricing, packaging and promotion	Mr. Batbold, Volcano Group	35,000 (26%)
9	GS	Choir Bakery	The production of new bakery products, use of modern equipment, health and safety standards, and staff training	Ms. Tuya Altai Bakery	35,000 (27%)
10	BH	Sulden Tenger cooperative	Marketing identification and research, product pricing, packaging and promotion	Mr. Haidar Golomt Bank	35,000 (20%)
11	BH	Dorniin Gegee LLC	Marketing identification and research, product pricing, packaging and promotion	Mr. Haidar Golomt Bank	35,000 (20%)

Activity Six: Short-Term Technical Assistance to Non-Herder Businesses

During the quarter a number of requests were received from non-herder businesses for specific short-term technical assistance. A total of eight (8) activities were organized by the program officers and a total of fifteen (15) businesses received technical assistance. In all activities the businesses contributed towards the cost of the activity (cost share). Table 7 provides the details of the activities that have been implemented.

Table 7: Short-Term technical assistance provided to Non-Herder Businesses

No	Aimag	Name of Clients	Area of Technical Assistance provided	Name of Consultant	Cost share (MNT)
1	GA	1. Enkhiin Zuun LLC 2. Tegsh-Altai LLC	Business Planning - the major components of a business plan and how to prepare one; finding and securing commercial financing, including loan applications, loan disbursement requirements etc.	Mr. Jargalsaikhan School of Business and Economics - Agric Univ.	1. 15,000 (39%) 2. 15,000 (39%)

2	UG	1. Saruul Od LLC 2. Umniin Gobi LLC 3. Bat Amgalan cooperative	Bakery production technology, use of modern equipment, new product development, health and safety standards, and staff training	Ms. Oyun Mongolian Culinary Association	1. 15,000 (20%) 2. 20,000 (26%) 3. 15,000 (20%)
3	UV	Delgerekh Khuns	Marketing identification and research, product pricing, packaging and promotion	Mr. Batbold, Volcano Group	30,000 (40%)
4	GS	Patent holder	Production of new bakery products (pastries, cakes etc). Use of modern equipment, health and safety standards.	Ms. Tuya Altai Bakery	15,000 (20%)
5	UG	1. Ih Goviin Togol cooperative 2. Private business	Greenhouse design, seedling and plant cultivation technology, temperature control, soil nutrition, and weed and pest control	Mr. Tumen Ag Engineering association	1. 20,000 (26%) 2. 15,000 (20%)
6	DG	1. Bayanbulag cooperative 2. Tsagaan suvarga tour camp	Tourism camp and service management, reservations, restaurant services and menus, and activities for camp guests	Mr. Oktyabr Mongolian Culinary Association	1. 29,000 (38%) 2. 29,000 (38%)
7	GA	1. Dashmyangan LLC 2. Hunher camp	Tourism camp and service management, reservations, restaurant services and menus, and activities for camp guests	Mr. Oktyabr Mongolian Culinary Association	1. 30,000 (39%) 2. 30,000 (39%)
8	UG	1. Bat-Amgalan hurkh cooperative 2. Oyut partnership	Milk processing, hygiene and sanitation standards related to production, storage and processing of raw milk and dairy products, yeast culture technology, proper use and maintenance of milk processing equipment and packaging, labeling and storage of dairy products	Ms. Tsetgsee Ministry of Food and Agriculture	1. 15,000 (20%) 2. 15,000 (20%)

Activity Seven: Local Capacity Building for Training and Technical Assistance

Of the fifty-five (55) training and technical assistance activities provided during the quarter, thirty-five (35) were conducted by local aimag-based consultants. The topics for these activities were mainly agricultural in nature, including vegetable and crop production, animal breeding, veterinary services and cooperative development. Most of the business-related training and technical assistance interventions are still provided by Ulaanbaatar-based consultants. This has highlighted the need to continue to look at ways to build the capacity of local consultants and institutional training providers so that they can provide technical assistance in more of the business development fields (financial management, financial recordkeeping, tax issues, market analysis, marketing development etc.). The program is continuing its efforts to identify local 'counterparts' who work closely with the Ulaanbaatar experts. These counterparts have all completed pre- and post-tests that were developed during the first quarter. This has enabled GI program officers to gauge whether the 'counterpart' has gained additional knowledge and training skill during the interaction.

Table 8: GI "COUNTERPART" Questionnaire before the consultancy is implemented

Name of Counterpart:	Ms. A. Oyuntuya, local consultant Umnugovi Aimag.
Skill of Counterpart	Conducted training on milk processing technology to two local herder groups on two separate occasions. Experienced teacher.
Name of UB Consultant who will work with you:	Ms. S. Tsetgsee, UB consultant. Dairy Product Processing Specialist
Technical Area of the UB consultant:	On June 18-24 2004, UB consultant will provide consultancy on milk processing to "Bat-Amgalan hurkh" coop in Nomgon soum, "Oyut" partnership in Hanhongor soum and "Goviin Orgil" coop in Dalanzadgad.
What are your current skills and knowledge?	Make 15-20 kinds of milk products using whey.
What are you good at within your technical skill area?	Process dairy products using whey.

What are you not so good at within your technical skill area?	Storage of dairy products and processing of milk products in compliance with health and sanitary standards
What do you want to learn from the UB Consultant?	Storage of dairy products and processing of milk products in compliance with health and sanitary standards. Also the production of new dairy products
What opportunities exist for you to provide training in your aimag or other aimags?	Training and consultancy on planting vegetables in Gobi conditions, canning vegetables and processing dairy products.

Table 9: GI "COUNTERPART" Questionnaire after the consultancy has been implemented

Name of Counterpart:	Ms. A. Oyuntuya, local consultant Umnugovi Aimag.
Skill of Counterpart	Conducted training on milk processing technology to two local herder groups on two separate occasions. Experienced teacher.
Name of UB Consultant who worked with you:	Ms. S. Tsetsgee, UB consultant. Dairy Product Processing Specialist
Technical Area of the UB consultant:	On June 18-24 2004, UB consultant provided consultancy on milk processing to "Bat-Amgalan hurkh" coop in Nomgon soum, "Oyut" partnership in Hanhongor soum and "Goviin Orgil" coop in Dalanzadgad.
What new skills and technical knowledge did you gain from the UB Consultant?	<ul style="list-style-type: none"> - Sanitation and hygiene requirements when processing milk - Milk pasteurization - Production of 4 types of cheese - Production of yoghurt, cream and sour milk - How to store and preserve dairy products
How did the UB Consultant interact with you and what materials did they provide for you?	I participated in the training and worked closely with the consultant; she interacted with me throughout the training and gave me handouts on dairy product technology.
How did the UB Consultant interact with the clients? Was it a good example for others to learn from?	Provided theory behind milk processing and then processed milk with the participants as a practical training. The consultant trained the participants to make 8-9 kinds of new products by themselves. It was a good example of combining theory and practice during a training session.
Do you feel that you could now provide the same technical training? Is there still a need to hire a UB consultant with these technical skills again in your aimag?	I believe that I can now provide the same training. I would like to be able to ask the consultant for advice if needed.
What further training or capacity building would you like to receive from GI?	To be provided with more information on dairy processing equipment.

The GI program officers have also begun using local consultants based in one aimag for training provided in another aimag. Mr Sodnomdorj, a tourism consultant and ger camp manager from Uvurhangai traveled to Dundgovi to provide training for two tourist ger camps. Ms. Amarjargal, a felt-crafts trainer also based in Uvurhangai has provided training to four groups in Govi-Altai and Bayanhongor aimags. The hiring of local consultants to travel to other aimags and provide training and technical assistance to GI clients will continue to be promoted by the program officers.

GI staff and local experts participated in TAN's "Training of Trainers Program" in April. This "TOT" activity increased the training competency of local providers with expertise in key subject areas such as fundraising, financial management, personnel management, advocacy and lobbying. 23 local experts were certified in Uvurhangai and Dundgovi aimags.

GI staff are continuing to update the comprehensive roster of all training and technical assistance providers based in Ulaanbaatar and the six Gobi aimags. The database provides a valuable resource to GI staff in identifying the consultants (local and Ulaanbaatar-based) best suited to meet the training and technical assistance needs of GI clients.

Activity Eight: Market Development

The most significant market development activity during the quarter has been the execution of a number of contracts with Ivanhoe Mines. Eight companies in Dundgovi, Umnugovi and Uvurhangai have concluded

twelve contracts worth MNT 132,444,000 (US\$ 112,240) to provide gers, ger furniture, beds and office furniture to Ivanhoe Mines. GI continues to explore the potential for supply of other products to the mine, including vegetables and dairy products. An early assessment of the vegetable production in Bulgan soum, Umnugovi, was completed by program staff; this information has enabled GI staff to conduct specific discussions with Ivanhoe camp management on a seasonal supply of vegetables to the mine. When the vegetables are nearly ready for harvest and sale, GI program staff will work with the Bulgan herders to coordinate the signing of sales contracts and the delivery of the vegetables to the Oyu Tolgoi mine site.

Molor Khuleg LLC, a long-term technical assistance client of GI in Uvurhangai aimag, recently participated in an international trade exhibition in Erdenet city, where their Hujirt Pure Mineral Water was awarded a gold medal for quality. Molor Khuleg has delivered samples of their mineral water and price information to Ivanhoe Mines and the company has entered into negotiations with Ivanhoe over a possible contract to supply the mineral water to the mine. With increasing business occurring between GI clients and the mine, Mercy Corps and Ivanhoe are finalizing a coordination strategy which outlines the goals and objectives of both organizations with respect to development work in the Gobi.

Other GI marketing efforts included assistance to the "Sulden Tenger" cooperative, also a long-term technical assistance client, in concluding a contract with the Jargalan mining company. Sulden Tenger is supplying bread and pastries to the mine under a contract valued at MNT 1,814,400 (US\$ 1,525) per month. In Umnugovi, staff assisted the "Enger Tsagaan Khairhan" cooperative, which has begun operating a petrol station, to finalize a contract with the Tavan Tolgoi coal mine to supply 1.5 tons of fuel on a monthly basis to the coal mine, at a value of MNT 825,000 (US\$ 700) per month.

As the year progresses, many GI herder clients are beginning to market and sell their products. Recent sales include:

- "Eejin Tstsal" cooperative in Tsogt soum, Govi-Altai, signed an agreement with a secondary school in Bayantooroi village to supply 2.0 tons of butter cream
- "Ulgii mandal" cooperative in Mandalgobi soum, Umnugovi, has sold one thousand 1 kilogram mineral salt blocks to herders in Harhorin soum, Uvurhangai
- "Gobi Tulga" cooperative, Hanhongor soum, Umnugovi has sold 15 elite bucks at the local soum market.

GI program officers have conducted two marketing/trading surveys within the Gobi region. The Bayanhongor office completed a survey among customers of the Tenger Wholesale Market. The major conclusion was that customers were more interested in its ability to provide goods that met their quality expectations vs. price differentials between Tenger and other markets. GI staff also visited the Gashuun Sukhait border point in Umnugovi aimag in April when the border point was open for a twenty-day period. The primary observations from the trip were:

- Almost everyone from Umnugovi aimag was transacting business at the border point; GI staff estimated that there were more than 1,000 trucks and vans crossing this border point, some from as far away as Bayan-Ulgii.
- Raw cashmere was selling at between MNT 37,000 and MNT 43,000 per kg, a high price even for the beginning of the cashmere season. Some cashmere changers were bringing more than 30 tons of raw cashmere across the border at one time and during the twenty-day cross-border trading period, more than 200 tons of cashmere crossed the border into China.
- There was a 6%-18% price differential between cashmere sold on the Mongolian side of the border vs. cashmere sold on the Chinese side of the border.
- During the twenty days that the border point is open, small businesses on the Mongolian side earn from MNT 100,000 and MNT 300,000.
- Exports from Mongolia included 200 tons of coal from Tavan Tolgoi mine.

- The conditions on the Mongolian side of the border were overcrowded and very unsanitary, making trade and business difficult. Large businesses were served first; small businesses and herders often had to wait up to 14 days to cross the border.

The dates for the annual aimag market events have been finalized. These events will showcase local products such as vegetables, dairy goods, hay/fodder, elite animals, agricultural equipment and inputs (seeds, fertilizers), and wood and felt items, in addition to cashmere, the primary product sold at market events in previous years. GI staff have been talking and negotiating with local government officials and businesses to secure non-GI financial support for the events.

Table 10: Dates of the agricultural and livestock trade fairs for each aimag

Aimag	Name of the activity	Date
Bayanhongor	Market day	15 September 2 days
Govi-Altai	Agricultural producers' day	15 September 2 days
Govi-Sumber	Market day	3 September 1 day
Dundgovi	Trade fair of local products	24 September 2 days
Uvurhangai	UH partnership-2004	23 September 2 days
Umnugovi	Trade fair of agricultural products	11 August 2 days

Activity Nine: Local Capacity for Advocacy

During the quarter, three independent UB-based consultants were hired to conduct assessments of existing herder associations in Govi-Altai, Bayanhongor and Dundgovi aimags. Each consultant was tasked with undertaking a study, in cooperation with the leaders and most active members of the association/NGOs. The study was to try to determine why and how the associations/NGOs were first formed, how they are currently managed, who really leads the organizations, whether or not there is a clearly defined mission, and who and how many individuals constitute their membership. In all three assessments the answer to the question, "Do the herders themselves see a need for an association and, if so, for what purpose(s)?" was never fully answered. The Dundgovi assessment came closest to answering the question. It noted that at least some herders would like to an association to provide assistance in selling their products, offer regular updates on weather and forage conditions, and assist with the identification and development of water points. Other herders in Dundgovi, primarily from the more developed cooperatives, thought that an association could provide assistance with market linkages, equipment & input facilitation (everything related to the market chain) and training and technical and business information dissemination. These thoughts need to be further clarified with the herder population.

All three assessment reports did succeed in clarifying the current status of the existing associations in the three aimags. Overall, the conclusions were that (a) the herder associations as they currently exist do not adequately represent the interests of their respective constituencies, (b) the current leadership structure and financial foundations of the associations are very weak, and (c) the membership consists largely of a few who live in or close to the aimag centers. Mercy Corps is currently planning a "mini-retreat" to analyze the results from the assessments and to determine what the next steps should be in terms of either support for the current associations or perhaps a "wait and see" approach that would put such organizational development options on hold until such time as the herders themselves begin to galvanize around a certain issue or issues.

Activity Ten: Local Government Support for Business

No specific activities have been implemented during this quarter, as initial project efforts have been focused on herder and non-herder businesses. The project will begin work on this activity after national and local elections have taken place this year.

OBJECTIVE TWO: INCREASE IN AVAILABILITY, ACCESS TO AND USE OF BUSINESS INFORMATION

Activity One: Business Information

CRSP Forage Forecasting

The forage forecasting component of the program started with the visit of a five member scientific team from Texas A&M University to Uvurhangai and Bayanhongor aimags from June 11 to 19. The goal of the trip was to finalize the selection of the sites that will be used to monitor Gobi pasture conditions and to test sample the vegetation within those sites. During the nine-day visit, a total of 39 monitoring sites were measured for vegetation characteristics out of the planned 120 sites. The 120 monitoring sites were selected by random sampling of 8x8 km weather satellite grids (CMORPH – climatic morphing of NOAA – National Oceanic and Atmospheric Administration) within a 15 km buffer of the Mongolian road network map. Two national staff members, hired just prior to the arrival of the TAMU team, received on-site field training. While the TAMU team was in Mongolia, a comprehensive work plan for the July to September 2004 period was developed. The primary objective for the forage team over this next three month period will be to establish the remaining test sites and collect and transmit all the required data to TAMU.

A map of the current and planned vegetation sites is included in **Annex 2**.

Concurrent with the launch of the new project, Pact staff produced an introductory video which will be used for promotional purposes. The video introduced the scientists and staff working on the project, highlighted the project's goals and objectives, and explained the technology that will be used in the project to develop the forage forecasting information. Two Pact staff members traveled with the TAMU team to Bayankhongor to shoot the video, which was edited in-house afterwards. The 12-minute video was sent to relevant organizations like USAID, Pact and the Mercy Corps headquarters.

Pact has started planning the forage forecast information dissemination component of "Gobi Forage". It is likely that the forecasts will best be disseminated through the monthly RBN magazine and the five day-per-week RBN radio program. Other means for disseminating the information may include press releases, SMS, bagh governors' long-range phones, RBN TV programs and handouts through GI Information Outreach Officers.

Production and Dissemination of RBN Mongolian Magazine

In the second quarter, Pact produced and distributed three issues of RBN magazine with a print run of 5,000 in April and May and 7,500 in June. The magazine has increased in size from 16 to 18 pages. The additional pages, which are in the format of a separate insert in the magazine, focus on a particular topic every month, e.g. vegetable planting (April), dairy production (May) and well and water-point maintenance (June).

During the reporting period, RBN continued with its tradition of providing timely, educational, practical and thought-provoking information to beneficiaries of the Gobi Initiative. RBN's lead topics during the quarter were economic education, food safety and reducing rural and urban disparities. In its business corner, RBN provided information on business teams, managing monetary affairs and planning and funding businesses. RBN also continued with "Farmers' Tip" and "Herders' Tip", providing information consistent with GI objectives. Regional pages used to present the best practices and success stories of rural businesses continue reaching readers. In total, 18 stories highlighting successful rural businesses appeared in RBN in the second quarter. These focused on different businesses such as commodity trading, dairy production, goat farming, livestock health, food processing, wool crafting, farming, crop planting and shoemaking. RBN also provided the traditional "Policy Watch", "Q and A" and "Weather Watch" segments.

A new segment was started in April - "Technology Corner". In this segment, Pact has started providing information on the use and availability of different types of equipment and machinery, especially those used for agricultural business. Thus far, Pact has delivered information on automatic and manually-operated machines for dairy production, wool processing and vegetable planting. "Technology Corner" was added in response to specific requests from the herding community, including many of GI's current program clients.

All story ideas were formulated based on ongoing feedback from readers and by surveys conducted by Pact/GI staff based both in Ulaanbaatar and the aimags.

During April and May, there were about 2,500 regular subscribers of RBN magazine throughout the country. Additional copies were sold through numerous outlets nationwide. RBN marketing activities conducted in May in Uvurhangai aimag resulted in an additional 1,800 subscribers, bringing the number of regular subscribers to more than 4,300. Unsold copies are being used for promotional purposes to attract new subscribers.

Promotional activities for third quarter subscriptions have been undertaken, including direct mail to potential subscribers, the issuing of press releases, radio advertisements and the placement of street banner ads. As mentioned earlier, with the restructuring of the Gobi II program, RBN has evolved into a niche publication focusing exclusively on rural business with relevance to readers in Gobi region. As a result of the subscription campaign for the coming quarter, RBN now has 4,300+ subscribers of which 3,200 are from Gobi aimags. This initial number of subscribers is less than originally anticipated due to:

- The free distribution of newspapers and brochures by political parties during the election campaign, which reduced the demand for paid publications during that period;
- Difficulties experienced by both Mongol Post and UB Post with on-time delivery of the paper to rural subscribers, particularly those residing in distant soums; and
- The belief that RBN is distributed for free, originating from the previous five years of free distribution.

The growth of electronic media has also impacted the number of print subscribers. Increasingly, people in the Gobi region (and within Mongolia as a whole) prefer access to this form of media given its minimal (or zero) cost. To boost subscriptions to the magazines, Pact has held discussions with Ivanhoe Mines, the UNDP Sustainable Grasslands Management project, the Swiss Council and the Red Cross about the possibility of placing ads/information in RBN and purchasing RBN for their employees, clients and constituents throughout the country.

Additional direct sales in other aimags and provinces are carried out by Pact's contracted Market Watchers in their respective aimags. An average of 1,800-2,000 copies is being sold every month on a non-subscription basis.

A survey investigating the reader's reaction and usability of RBN was held in two of the Gobi Initiative aimags - Umnogovi and Dundgovi. The survey results are included in **Annex 3**.

Production and broadcast of RBN Weekly Radio Programming

The planned "weekly" programming became "daily" (5 days per week) in June of the third quarter. Following successful negotiations with Mongol Radio, Pact has managed to increase the total radio programming time to two additional days per week (45 minutes every day) at a minimal additional cost. This enables Pact to air the RBN program on every working day of the week.

Pact produced approximately 60 minutes of radio programs per month in both April and May, while more than 800 minutes were produced in June. Pact's now daily RBN radio program continues to broadcast "Market Watch", "Weather Watch", "Learning Agribusiness", "Business Mirror" and "Feature Success Stories". The "Market Watch" segment continues to provide price information for 44 different commodities, but staff also occasionally add some commodities relevant to seasonal business cycles, such as planting and cashmere combing. Other segments include the review of RBN magazine, round-table discussions about RBN's lead story and interviews with business and agricultural specialists. Future programming plans include segments on the use of agricultural machinery and equipment, the price of seeds and vegetables and cooperative profiles.

Changes were applied to the format of the programs to include even more live sound interviews and "vox pops". Input from business experts were also added to attract the attention of listeners, eradicating the old style of nonstop talk between host and guest.

A round-table discussion about RBN's lead story was produced every month during the quarter, providing the views and opinions of business experts quoted in the story. The April round-table discussion featured "Economic education and its importance" and May offered "Food safety versus business". The final program of the quarter was "Reducing urban and rural disparities".

As the RBN program is not "all things for all people" media, Pact has received different feedback from the listeners indicating what content improvements they want and what types of programs they prefer to hear. In general, positive feedback was received from listeners through the survey conducted in the two Gobi aimags.

Herder from the Future Radio Drama (25 programs)

In the second quarter, Pact continued the production of the radio drama "Herder from the Future" (HFF). Until mid-June, we aired episodes of HFF which were produced in late 2003. As the final episodes were aired, we began script development for episodes 75-100. In late June, we completed 50% of the production of the third series. The main message of these episodes focuses on an entire business cycle including topics such as business planning, production, financing, pricing, marketing, product promotion and risk management - all centered around new and expanding businesses.

The episodes produced during the quarter will be aired later this year. Pact will also conduct a follow-up focus group survey to identify key impacts of the program and to determine additional content needs, thus helping to inform development of the follow-on series content. Pact is currently making efforts to increase the HFF audience through the promotion of the new series via RBN magazine and radio.

Production and dissemination of Market Watch

Pact collected highly-valued commodity price information during the reporting period and disseminated it to GI beneficiaries and other herding and non-herding businesses throughout the country. The information was collected on a daily basis in 20 aimags as well as from the two large raw-material markets on either sides of Ulaanbaatar. The information was disseminated via the following media:

- **RBN-509 (MobiCom SMS service).** 1,729 accesses of RBN-509 were registered in April, 1,287 in May and 1,100 in June, with approximately 40 percent originating from rural areas. Pact also piloted price information dissemination through Iridium, the satellite phone service that covers Mongolia. The pilot was successful in terms of technical capacity but it is currently not economically feasible due to the limited number of users of satellite phones in Mongolia (only a few mining and tourism companies).
- **RBN Radio-Market Watch Program.** During the second quarter, "Market Watch" included primarily the prices for cashmere, wool, meat, skins, hides and intestines. During the cashmere-combing season, Pact broadcast more detailed cashmere price information and a broader market perspective for herders to help them better understand global and local market dynamics and price trends. Market Watch information provided via RBN radio gave herders information that enabled them to make decisions around which markets to access and at which prices to sell their products.

Pact also provided time-sensitive pricing information such as vegetable seed prices (April/May) and select agricultural machine prices (May/June). Pact will also continue providing seasonal price information for different businesses e.g. vegetable prices in autumn and felt prices in early winter. To determine which items should be added, a preliminary survey was conducted and items selected.

- **RBN magazine.** The April issue highlighted cashmere sales, while the May issue focused on the meat market. The final issue of the quarter, the June issue, highlighted skin and hide sales with details about the factors influencing price fluctuation.
- **RBN TV.** Disseminating Market Watch information via TV is a possibility for the next quarter of CY2004. In May, Pact piloted a ten-minute program focused on "Market Watch" and its products in co-operation with the Social and Economic Programming Department of Mongol TV. Pact has discussed with Mongol TV the possibility of broadcasting ten-minute segments twice per month, focusing on commodity prices and fluctuations and including expert opinions.

The dissemination of Market Watch information continues to ensure the elimination of raw material price differentials across Mongolia. Further plans for improvement are under discussion.

RBN Website

Pact has continued to regularly update the RBN website (www.rbn.mn). Some improvements in the design were made at the end of June. The website pulled together all rural business news reported elsewhere as part of RBN services and products, targeting primarily rural business people residing in aimags who have access to the internet. In terms of RBN magazine subscriptions, Pact uploads the website only after all possible copies are sold out. This ensures that print subscribers are able to get the information first. Possible online sales of RBN have been discussed with E-Mongol LLC. Pact staff are currently working on a new design for the RBN website that may include a forum where readers can submit their opinions related to rural economic development as well as opinions on Pact products.

Production and Broadcast of RBN TV Programming

Pact initially planned the production of two ten-minute TV programs per month for CY2004. However due to the elections and political party control of the TV airwaves, one fifteen-minute program was produced and aired in April. Mongol TV modified its schedule because of the election, eliminating the "Four Seasons" program for the election period. We expect the program to be re-launched in the next quarter.

During the second quarter Pact staff did however make some trips to rural aimags to shoot programs for airing in the future.

Activity Two: Local Capacity for Information Dissemination and Communication

During the second quarter, two Pact staff members traveled to Bayanhongor and Govi-Altai for an assessment of information needs and local dissemination realities. A detailed report of assessment findings was delivered to senior Gobi Initiative management.

It is envisioned that the findings will enable Pact to plan needs-driven training and seminars for herder and non-herder associations, NGOs and local government on business information dissemination in all six G aimags. Follow-up activities will be reported to USAID in future periods.

COLLABORATION WITH OTHER PROJECTS

Within the Gobi region, the program continues its cooperation with other donors. GI herder clients have had four wells rehabilitated and one loan secured through the World Bank Sustainable Livelihoods Project. Two herder clients in Uvurhangai aimag have initiated environmental conservation projects funded by the World Wildlife Fund. In Bayanhongor, the "Origiin Dolgio" cooperative was visited by the First Secretary of the German Embassy who pledged MNT 3 million to support the purchase of new felt production equipment. GI herder clients have also cooperated with the ADRA and World Vision projects, receiving vegetable and potato seeds.

Staffing working with the "Gobi Forage" component of GI held meetings with the Pastoral Risk Management section of the World Bank's Sustainable Livelihoods Project. Pastoral Risk project staff provided GI with pasture and rangeland usage maps for Govi-Altai and Bayanhongor which will help in the development of the forage forecasting computer models.

GI staff participated in the EPRC/GTZ conference "Cashmere Industry-Partnership for the Future" where the Dundgovi Aimag Representative made a presentation on the cashmere industry as viewed from the herder perspective.

The Mercy Corps TAN NGO Strengthening Program and Gobi Initiative have combined efforts to address the capacity-building needs of herder associations and other civil society organizations through two primary activities, the training of local experts, and improving local government procurement in support of rural development. GI staff and local experts participated in TAN's "Training of Trainers Program" in April. This "TOT" activity increased the training competency of local providers with expertise in key subject areas such as fundraising, financial management, personnel management, advocacy and lobbying. 23 local experts

were subsequently certified in Uvurhangai and Dundgovi aimags and will be contracted to address the organizational capacity needs of herder associations and other civil society organizations in both the Gobi Initiative and TAN Programs. Furthermore, TAN's consultative efforts to identify more transparent and effective local government procurement mechanisms have augmented G's planned work on strengthening local government responsiveness to rural business development. In May, TAN conducted extensive research on local procurement in target aimags and worked with local governments, the Ministry of Finance and Economics, business, and civil society leaders to identify and propose changes to local procurement policy in order to support private and civic sector development.

Mercy Corps received its USDA 2003 funding in late May 2004. These funds are being used primarily for initiating rural business development programming in five new aimags - Khovd, Zavhan, Arhangai, Dornogovi and Sukhbaatar, but some of the funding will support the Gobi Initiative, as follows:

- **Loan Guarantee Fund** - funding to provide the additional cash collateral necessary to secure for loans to herder businesses;
- **Capacity-Building of Herder Associations** - funding for the organization and ongoing development of herder associations/NGOs;
- **Veterinary Pharmaceutical and Equipment Fund** - funding to supply effective drugs and modern equipment to soum and aimag-based veterinarians (implemented by Mongolia V.E.T. Net);
- **Animal Nutrition Monitoring System** - funding to establish and institutionalize a system to track the nutritional well-being of livestock and provide guidance on optimal feeding/nutritional interventions (managed by Texas A&M University); and
- **Food Safety** - funding for training of dairy producers on safe dairy production practices and standards and for local government staff on monitoring compliance with those standards.

PROGRAM/FINANCIAL MANAGEMENT

As noted in the first quarter report, the USDA wheat monetization funds that co-financed Gobi Initiative for the last year of Phase I and the beginning of Phase II were fully expended as of March 31, 2004. Since these funds were available to support the start-up of Gobi II, total expense under the Gobi II Cooperative Agreement for the first quarter was only \$193,000. Spending increased in the second quarter but cumulative expense to date is still below the up to \$1 million in expense that could be expected at the half-way point of a \$2 million first-year budget. Spending will increase again during the third quarter (July to September) which is the peak project implementation period.

Spending through June 30, 2004 has not yet been finalized, but preliminary figures indicate cumulative expenses of approximately \$560,000. This amount is composed of the following:

UB Project Management	\$140,000
UB Program Delivery	105,000
Aimag Program Delivery	120,000
PACT/RBN	135,000
Indirect Cost	60,000

TOTAL	\$560,000

The reallocation of program delivery expenses into "target group" results in the following:

UB Project Management	\$140,000
Herder Businesses	144,000
Non-Herder Businesses	81,000
Local Government/Other	-0-
PACT/RBN	135,000
Indirect Cost	60,000

TOTAL	\$560,000

There were no key staffing changes during this quarter.

CONCLUSIONS AND RECOMMENDATIONS

Overall, the project remains on schedule. Virtually all of the herder groups/cooperatives are well-positioned to achieve their CY2004 business objectives. The planned GI training and technical assistance interventions are being delivered in accordance with plans, and all facilitation efforts (inputs, machinery, loans, etc) have been successful with the single exception of fodder crop seed acquisition. Despite significant efforts to find quality oat seeds, GI staff and numerous contacts were unable to locate such seeds in-country, thus missing the "window" for this season's planting. GI will redouble its efforts over the next nine months to locate such seeds including, if necessary, the importation of "Mongolia-friendly" varieties.

Also as noted in this report, work with non-herder businesses has been slower than expected because of difficulties encountered in finalizing the business plans that are a precondition for training, technical assistance, and facilitation (loan/other) efforts that follow. GI has increased the number of consultants assisting with the business planning process in an effort to accelerate finalization of the plans. Fortunately, unlike the situation with the herder businesses, assistance to non-herder businesses is not normally (seasonally) time-sensitive.

Marketing efforts are fully underway with linkages being formed between herder producers and both small (local schools) and large (Ivanhoe Mines) consumers. Planning is also well underway for the September market events that will showcase local production.

RBN continues its transformation to a more targeted and technical Gobi rural business product, responsive to reader, listener and viewer interests and needs. Acknowledging the ongoing evolution toward print alternatives, RBN has focused increasing attention on radio and television programming and SMS technology.

Mercy Corps and Pact have no recommendations at this time for any material changes in the GI Phase II program.

This concludes the Year One Second Quarter Report. Attachments to this report are:

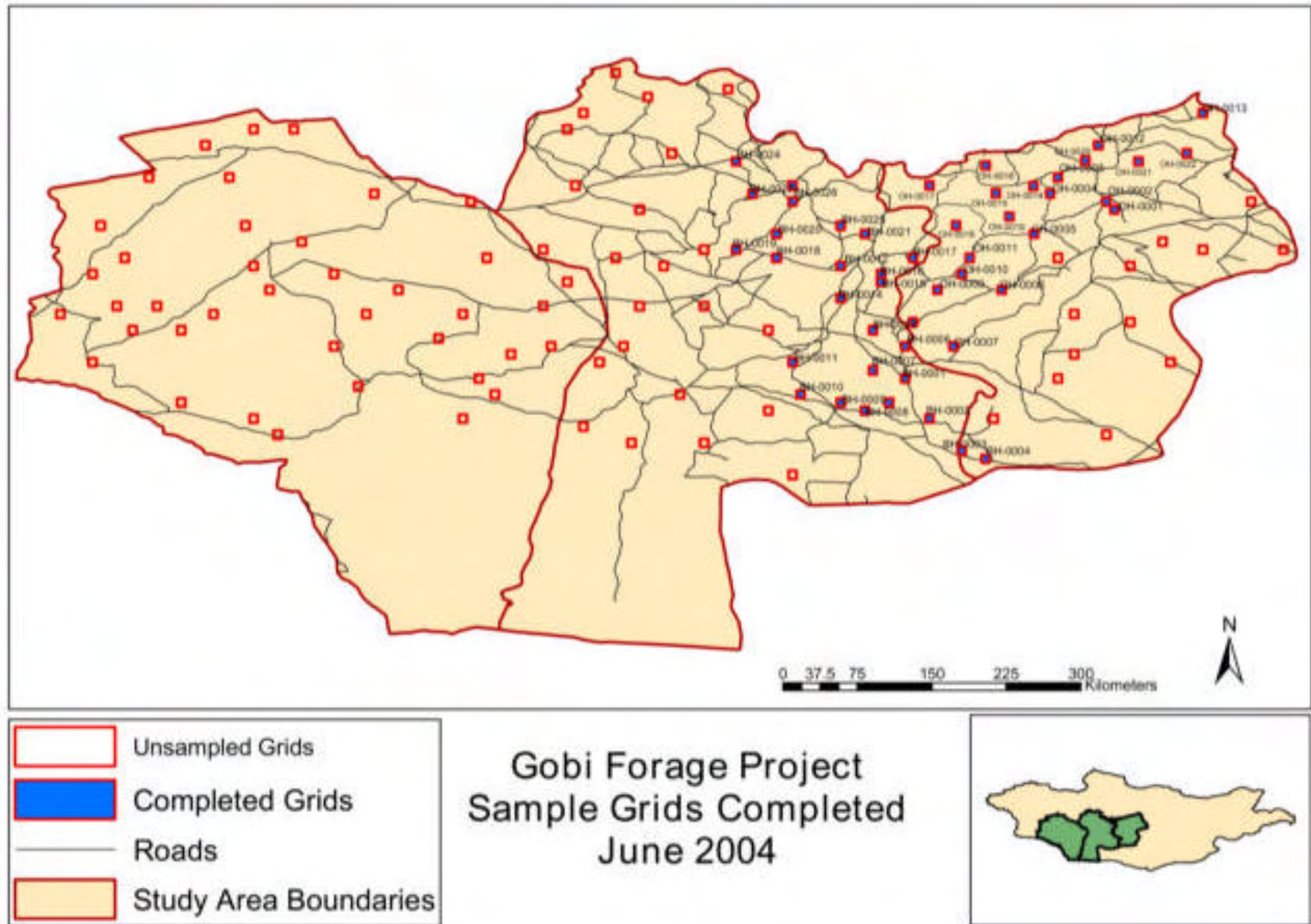
- Annex 1 - Loan Facilitation Status Report - June 2004
- Annex 2 - Gobi Forage Project Sample Grids Completed - June 2004
- Annex 3 - Result of Rapid Assessment on Pact Products

Annex 1

LOAN FACILITATION STATUS REPORT - JUNE 30, 2004

#	Entity	Aimag	Planned	Actual									Application s submitted	Application s being prepared	Applicatio ns withdrawn
			Size of loan	Size of loan	Interest rate	Date of taking loan	Date of repaying loan	Bank	Collateral by client		Collateral by MC				
									%	MNT	%	MNT			
1	Modon Ovoony Ekhlel	BH	500,000	500,000		25-may-04	Dec.04	XAC	20%	100,000	80%	400,000			
2	Tsenheriin Tsuurai	BH	1,300,000	1,300,000	1.5%	29-Apr-04	Dec. 28,2004	XAC	20%	260,000	80%	1,040,000			
3	Tsagaan Undraga	BH	1,000,000	3,000,000	1.5%	30-Apr-04	28-Apr-05	? ? ?	20%	600,000	80%	2,400,000			
4	Mal Munkh	BH	1,000,000	1,000,000	1.5%	29-Apr-04	Dec. 28,2004	XAC	20%	200,000	80%	800,000			
5	Nuur Hatavch /Sarlagiin shin	BH	1,000,000							0		0	1,000,000		
6	Tangad	BH	1,000,000							0		0		1,000,000	
7	Baruun nuur	BH	1,000,000							0		0		1,000,000	
8	Tugrugiin Itgeltset	DG	7,500,000							0		0			
9	Oldohiin Devjih	DG	2,000,000							0		0		2,000,000	
#	Devjin	DG	1,000,000	1,000,000	1.5%	10,May.05	May.05	XAC	10%	100,000	90%	900,000			
#	Gal Michid	DG	1,600,000	1,600,000	1.5%	19-May-04	May-05	? ? ?	10%	160,000	90%	1,440,000			
#	Bulag	DG	2,000,000							0		0			
#	Logiin Govi	DG	1,500,000	2,000,000	1.5%	4- June-04	June,05	? ? ?	20%	405,000	80%	1,595,000			
#	Alagiin Devshikh	DG	1,200,000	1,200,000	1.5%	15- June-04	June,05	? ? ?	20%	240,000	80%	960,000			
#	Ongi	DG	1,500,000	1,500,000	1.5%	14,May.05	May.05	XAC	10%	150,000	90%	1,350,000			
#	Dalan	DG		1,700,000	1.5%	24-June-05	June.05	XAC	10%	170,000	90%	1,530,000			
#	Ovoon Den	GA	800,000							0		0			
#	Urnukh Buyan	GA	6,000,000							0		0			
#	Tsagaan Gol	GA	2,000,000	2,000,000	1.5%	6. May.04	20,May.05	? ? ?	20%	400,000	80%	1,600,000			
#	Deed Oglog	GA	3,000,000	3,000,000	1.5%	27- May.04	May.05	? ? ?	20%	600,000	80%	2,400,000			
#	Rashaant Khairhan	GA	1,000,000	1,000,000	1.5%	17-May-04	25-Nov-04	? ? ?	20%	200,000	80%	800,000			
#	Ajiin Gerel	GA	5,000,000	5,000,000	1.5%	28-May-04	May.05	? ? ?	15%	750,000	85%	4,250,000			
#	Hurimtblag	GA	3,000,000	2,000,000	1.5%	22-June-04	June.05	? ? ?	20%	400,000	80%	1,600,000			
#	Sutai	GA	1,500,000							0		0			
#	Tungalag	GA	7,000,000							0		0			
#	Tarian ovoo	GA	1,500,000							0		0		1,500,000	
#	Badrakh Shand	GS	3,445,000	2,400,000	1.5%	23-Apr-04	18-Apr-05	XAC	20%	480,000	80%	1,920,000			
#	Sumber Tsagaan Temeet	GS	3,015,000	3,000,000	1.5%	29-Apr-04	19-Apr-05	XAC	20%	600,000	80%	2,400,000			
#	Bilgiin Dalai Ekh	GS	2,500,000							0		0			
#	Mandal Sansar	GS	3,000,000	3,000,000	1.5%	23-Apr-04	18-Apr-05	XAC	20%	600,000	80%	2,400,000			
#	Hamtiin Huch	UG	1,000,000	1,000,000	1.5%	21-Apr-04	20-Apr-05	XAC	20%	200,000	80%	800,000			
#	Aduutgovi	UG	1,000,000	1,000,000	1.5%	23-Apr-04	27-Apr-05	XAC	20%	200,000	80%	800,000			
#	Delgerekh Shar Huv	UG	1,000,000	1,000,000	1.5%	21-Apr-04	20-Apr-05	XAC	20%	200,000	80%	800,000			
#	Bat-Amgalan Hurh	UG	4,000,000	4,000,000	1.5%	13-May-04	May-05	XAC	20%	800,000	80%	3,200,000			
#	Hongor Ovoo	UG	1,000,000							0		0			1,000,000
#	Goviin Buyan Delgerekh	UG	500,000	1,000,000	1.5%	06-July-04	July-05	XAC	20%	200,000	80%	800,000			1,000,000
#	Huren hana	UG	2,000,000	2,000,000	1.5%	12-May-04	May,05	XAC	20%	400,000	80%	1,600,000			
#	Uguuj Teel	UH	2,600,000	2,600,000	1.5%	3-May-04	May, 05	? ? ?	20%	520,000	80%	2,080,000			
#	Zuun Bogdin Uguuj	UH	3,000,000	3,000,000	1.5%	21-May-04	May,05	? ? ?	20%	600,000	80%	2,400,000			
#	Khatan Olon Khudag	UH	1,800,000							0		0			

#	Munkh gurban Khairkhan	UH	3,000,000							0		0	3,000,000		
#	Aviat Aman Bulag	UH	9,800,000	9,800,000	1.5%	30-Apr-04	Apr.05	? ? ?	10%	980,000	90%	8,820,000			
#	Ongon Mandal	UH	3,000,000	3,000,000	1.5%	25-may-04	May,05	? ? ?	20%	600,000	80%	2,400,000			
#	Hiadiin Govi	UH	3,000,000	2,000,000	1.5%	30-Apr-04	Apr.05	? ? ?	10%	200,000	90%	1,800,000			
#	Ideenii Deed	UH	1,000,000	1,500,000		6-May-04	May. 05	XAC	10%	150,000	90%	1,350,000			
#	Urjlin Hugjil	UH	4,000,000	4,000,000	1.5%	27-Apr-04	May. 05	XAC	10%	400,000	90%	3,600,000			
#	Bayan Zulegt	UH	4,800,000	4,800,000	1.5%	6-May-04	Apr. 05	XAC	20%	960,000	80%	3,840,000			
#	Uguuj Chandmani	UH	2,500,000	4,300,000	1.5%	6 -May-04	May.05	XAC	20%	860,000	80%	3,440,000			
#	Bayan Dulguun	UH	3,200,000	3,200,000	1.5%	11 -June-04	June.05	XAC	20%	640,000	80%	2,560,000			
#	Dulguun devshil	UH	700,000							0		0		700,000	
#	Taatsiin Huh Arvai	UH	1,300,000	1,300,000	1.5%	30-Apr-04	May, 05	? ? ?	10%	130,000	90%	1,170,000			
#	Hatan Mod Hairhan	UH	4,000,000	4,000,000	1.5%	28-Apr-04	May. 05	XAC	10%	400,000	90%	3,600,000			
#	Ushgug Erdene	UH	3,000,000	3,000,000	1.5%	12-May-04	May,05	XAC	10%	300,000	90%	2,700,000			
	Total		129,060,000	92,700,000						15,155,000		77,545,000	4,000,000	6,200,000	2,000,000



Result of rapid assessment on Pact products (RBN radio and magazine)

Annex 3

Date: 15- 30 June, 2004

Goal: To identify the quality level (current and expected) of Pact products, namely radio and magazine, and to test the usability and outreach of the current information (selected)

The questionnaire

The questionnaire was delivered to 90 readers and listeners in two Gobi aimags: Umnugovi and Dundgovi. Pact Market Watchers facilitated the survey, which was followed up by an interview conducted by local members of the Mongolian Information Network NGO.

The respondents were comprised of the following: 42 were herding business operators, 11 were non-herding business operators and the balance made up from government organizations, NGOs, etc. The gender ratio of the respondents was 52% male and 48% female. The age breakdown was 11 people aged up to 25, 26 people between the ages of 25 and 35, 30 people aged from 36 to 50 and the remainder were more than 50 years old.

Forty percent of respondents said they received RBN magazine through regular subscription. Sixty percent received theirs via direct sales, from friends and through other channels. Forty five percent said they were regular listeners of RBN radio. All respondents are very familiar with Pact/RBN products, both the magazine and radio programming. Almost 80% of respondents mentioned that they had read the last two issues of RBN (May and June). The remainder was familiar with all issues produced during the reporting period.

Ninety-five percent of respondents said they thought the information provided by Pact was useful and of a high quality. Of the 90 respondents, 29 started or diversified their businesses using the information provided by Pact in the past six months. The respondents said the most used information was obtained from Market Watch (62%), Business Corner (62%), Herders' Tip (54%), Farmers' tip (44%), Aimag Pages (30%) and Lead Story (17%). As far as RBN radio is concerned, 56% of respondents like Weather Watch, 55% Market Watch and 35% Learning Business. About 70% of the respondents said they would miss the magazine and the radio broadcasts if they no longer existed; 15% said they would not miss them. As for frequency of distribution, 65% of respondents wanted to receive the magazine twice a month, while the balance said that the current frequency was adequate.

A specific question about the additional technical insert elicited the following results: 55% said it was very useful; the balance said it was adequate. The first insert on vegetable planting was deemed to be very useful by 46% of the respondents, fairly useful by 40% and less useful by 8%. The second insert on the dairy business was deemed very useful by 51% of respondents, fairly useful by 40% and less useful by 6%.

The respondents used a five-point system to evaluate RBN magazine and radio. On average, they gave the magazine 4.4 points and the radio program 4.1 points.

The follow-up interview

After the post-questionnaire data retrieval, a follow-up interview took place in an attempt to verify the findings of the questionnaire. This time 15 people in each aimag from as many soums as possible were interviewed. As well as the verification of the survey findings, the interview was designed to reveal the usability and usefulness of Pact/RBN products. In order to avoid overlap, the people who were surveyed initially were not used for this follow-up component. The intention was not to uncover people's general feelings about RBN; the intention was to find out the impact of RBN's stories (the technical insert) and of the radio program (Market Watch).

For the interview, two topics were selected from the magazine and the radio program. We chose the technical insert for April and May and our regular radio show (Market Watch) and asked the following:

(1) Was the article/program relevant to the person's needs? Seventy five percent of the respondents answered positively.

(2) Was the article usable i.e. did it contain information that had any practical application/s? Fifty five percent of the respondents said the articles were practical and usable and that the information was what they needed.¹

(3) Is there any constraint or obstacle to using this information (access to specific resources, training etc.)? Many pointed out that while they got ideas from an insert, the main obstacle was funding the idea. In terms of the radio program, more than 65% said they had no obstacle in using the Market Watch information, although there were a couple of comments about the authenticity of the information.

(4) Were they planning on acting on this information? Fifty percent of the respondents said they had ideas that they would implement these ideas when the opportunity arose. Thirty three percent said they had already begun implementing ideas such as selling products and starting businesses like growing vegetables and processing dairy.

When asked what resources they used to make decisions about starting up new businesses or diversifying their current businesses (in the past six months), 75% of the respondents said they used RBN and other media (50% relied solely on RBN); 25% used their own initiative. Those decisions covered such areas as buying high-quality animals, using Market Watch information when selling their products, starting a vegetable-growing operation, raising dairy and meat cattle, shifting into semi-settled animal husbandry, fencing off pastureland, processing wool, selling airag, starting a shoemaking business, opening a shop, dairy processing, producing briquettes and felt-making.

When asked what they had gained from RBN and the radio programs, 56% said they greatly used Market Watch information for selling their products, thirty three percent said they either got the idea to plant vegetables or did actually start planting, and 25% said they got the idea to start a business or had started a business.

Overall, the findings of the survey were backed up by the interviews.

¹ Practical applications included selling raw materials for higher prices, gaining knowledge about their business management, using weather forecasts for herding businesses, buying dairy cows for dairy businesses, starting milk processing operations (packaging in plastic bags), etc. Of the points mentioned here, the use of Market watch was repeated in 12 of 30 interviews.